

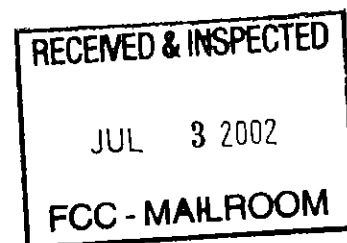
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

Adopted: July 1, 2002

Released: July 1, 2002

VIA FACSIMILE AND FIRST CLASS MAIL

Ed Freitag, Esq.  
NeuStar, Inc.  
1120 Vermont Avenue, N.W.  
Suite 400  
Washington, D.C. 20005



Re: North American Numbering Plan Administrator Neutrality Requirements  
CC Docket No. 92-237, NSD File No. 98-151

Dear Mr. Freitag:

The Wireline Competition Bureau (Bureau) has completed its investigation concerning the acquisition of equity interests in NeuStar by two investors, and NeuStar's proposed additions to its Board of Directors (Board). After review of the information submitted by NeuStar and as discussed below, we have determined that the proposed changes to the Board would be inconsistent with the conditions set forth in the *Warburg Transfer Order*,<sup>1</sup> and therefore direct you not to implement them. We also find that specific proposed changes to NeuStar's Amended and Restated Stockholders' Agreement, and Amended and Restated Voting Trust Agreement, which we understand have not yet been invoked, do not comport with the requirements in the *Warburg Transfer Order*, and therefore direct you to revise these agreements as described below. Furthermore, although our review indicates that the particular investments here do not, as a factual matter, violate the neutrality conditions, we clarify, to the extent that any confusion exists, that in the future NeuStar must seek and get prior approval from the Commission before accepting additional investments, or making changes to the voting trust or the Board.

Representatives of NeuStar met with staff from the Bureau and the Office of General Counsel (OGC) on July 25, 2001, at which time the staff was advised that NeuStar (1) had accepted investments from two new entities, D.B. Capital Investors, L.P. and ABS Capital funds, and (2) was proposing to change the constitution of the Board. These actions raised questions concerning the Commission's neutrality rules and other

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<sup>1</sup> *Request of Lockheed Martin Corporation and Warburg, Pincus & Co. for Review of the Transfer of the Lockheed Martin Communications Industry Services Business*, CC Docket No. 92-237, Order, 14 FCC Rcd 19792 (1999) (*Warburg Transfer Order*)

requirements set forth in the *Warburg Transfer Order*. The Bureau submitted a request for information to NeuStar on August 13, 2001, and NeuStar submitted a response on August 23, 2001. After a review of the submitted materials and a meeting with NeuStar representatives on October 17, 2001, additional questions were raised. In response to a further information request from the Bureau, NeuStar submitted additional information on November 29 and December 7, 2001. The Bureau determined that this information was deficient. The deficiencies were not remedied until April 2, 2002, after numerous telephone conversations between Bureau and OGC staff and NeuStar's attorneys. It has taken substantial effort on the part of the staff to obtain basic ownership information from NeuStar, and I am particularly concerned that the staff had to go to such lengths to obtain information that was clearly necessary to conduct an inquiry of NeuStar's disclosures. In the future, I am hopeful and confident that communications and responsiveness will be improved.

Turning to the specific facts before us, we do not find that the additional investments in NeuStar are a *per se* violation of the Commission's neutrality rules.<sup>2</sup> Nevertheless, by admitting two additional investors, NeuStar has made a change to its overall ownership structure contrary to the language in paragraph 37 of the *Warburg Transfer Order*. As noted above, however, it does not appear that the change to the ownership structure has, by itself, changed the degree of control exercised over NeuStar by Warburg, Pincus & Co. (Warburg) or any other investor so as to raise a concern that the neutrality requirements would be violated. We therefore retroactively approve the admission of the new investors. We also hereby admonish NeuStar for taking such action without Commission approval and emphasize to NeuStar that, in the future, no changes whatsoever may be made to its overall ownership structure without first receiving the Commission's approval.

We also find that certain proposals and changes made by NeuStar in conjunction with the additional investments would violate the *Warburg Transfer Order*. First, section 2 of NeuStar's Amended and Restated Stockholders' Agreement, dated June 5, 2001 (Stockholders' Agreement), gives Warburg additional control over NeuStar's Chief Executive Officer and independent directors.<sup>3</sup> The *Warburg Transfer Order* requires that Warburg control no more than 40 percent of the Board. The additional control given to Warburg by the Stockholders' Agreement therefore violates the *Warburg Transfer Order*. Because we understand that these changes have not yet been implemented, we find no present violation. The Bureau, however, directs NeuStar to maintain the structure of the Board as approved in the *Warburg Transfer Order*, and to delete the additional control given to Warburg from the Stockholders' Agreement to ensure continued compliance with the Commission's rules.

Additionally, the Amended and Restated Voting Trust Agreement, dated June 5, 2001 (Voting Trust Agreement), has been revised to give Warburg additional control

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<sup>2</sup> 47 C.F.R. § 52.12(a)(1)

<sup>3</sup> See Stockholders' Agreement, Section 2(e)(ii)

over the voting trust.<sup>4</sup> The *Warburg Transfer Order* also requires that the structure of the voting trust, as approved, be maintained during NeuStar's term as the North American Numbering Plan Administrator, and concludes that any changes may render NeuStar in violation of the Commission's neutrality requirements.<sup>5</sup> We find that the proposed change to the Voting Trust Agreement would violate the *Warburg Transfer Order*. Again, because this provision has not been invoked, we find no present violation. We again, however, direct you to revise the Voting Trust Agreement to delete any references to additional control over the voting trust by Warburg.

Finally, we note that both the Joint Venture Formation Agreement between NeuStar and Melbourne IT Limited, dated April 27, 2001, and the Registration Rights Agreement, dated June 5, 2001, contemplate certain actions by NeuStar.<sup>6</sup> Such actions would, if implemented without the Commission's prior approval, violate the *Warburg Transfer Order*. Accordingly, the Bureau specifically directs NeuStar to refrain from issuing additional shares, registering for sale, permitting the private sale, or otherwise permitting the transfer of any of its shares without first obtaining the Commission's approval.

In light of the importance the Commission has placed on the need for a neutral third-party numbering administrator, we are very concerned that NeuStar sought to make the changes delineated above without first consulting with the Bureau. We now reiterate that NeuStar must seek and get prior approval for any and all changes to its organizational structure, the voting trust, or the Board of Directors, even if NeuStar believes that such changes will not result in a violation of the Commission's neutrality rules. Changes to NeuStar's organizational structure may include, but are not limited to, changes in its corporate structure, bylaws, or distribution of equity interests.

We understand that all of these changes have not yet been fully implemented, and caution you that, for the reasons described above, they may not be implemented without Commission approval under the terms of the *Warburg Transfer Order*. Therefore, NeuStar must make the changes as set forth above, and submit a revised Stockholders' Agreement and Voting Trust Agreement to the Bureau for review within 30 days from the date of this letter. Failure to do so may result in termination of NeuStar's numbering administration functions, or further subject NeuStar to the full extent of the Commission's enforcement authority, including the imposition of fines or forfeitures. Furthermore, any repetition of this type of conduct, without first obtaining Commission approval, will subject NeuStar to any and all remedies available to the Commission, up to and including termination.

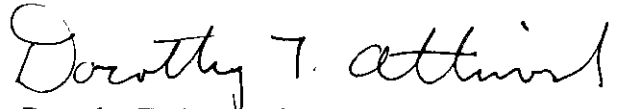
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<sup>4</sup> See Voting Trust Agreement, Section 14.

<sup>5</sup> *Warburg Transfer Order*, para 37.

<sup>6</sup> See Joint Venture Formation Agreement, Article 7, Registration Rights Agreement, Section 2.

We look forward to working with you in the future to ensure that NeuStar, as the administrator of an important public resource, maintains its ability to serve in a neutral manner. If you have any questions concerning this letter, please contact Diane Griffin at (202) 418-1500 or Cheryl Callahan at (202) 418-7400.

A handwritten signature in cursive script, reading "Dorothy T. Attwood".

Dorothy T. Attwood  
Chief, Wireline Competition Bureau